Department of Energy
Savannah River Operations Office
P.O. Box A
Aiken, South Carolina 29802

June 12, 1998

Mr. Ambrose L. Schwallie, President
Westinghouse Savannah River Company
Aiken, SC 29808

Dear Mr. Schwallie:

SUBJECT: Award Fee Determination for October 1, 1997, through March 31, 1998, Award Fee Period 3 of Contract Number DE-AC09-96SR18500

I have completed my evaluation of the Westinghouse Savannah River Company (WSRC) contract performance for Award Fee Period 3 and determined your award fee as described herein. Many Period 3 achievements, particularly when viewed in the context of the Department of Energy Savannah River (DOE-SR) management focus areas (safety, technical capability, community and regulator relationships, cost-effectiveness, and corporate perspective) are noteworthy.

SAFETY

Performing work safely is the most significant attribute of a good contractor. Our assessment reflects that you demonstrated a clear and strong commitment to safety and operational excellence in accomplishing many assigned tasks. In general, your implementation of the principles and functions of Integrated Safety Management was commendable.

TECHNICAL CAPABILITY

There were many exceptional technical achievements during the period which further demonstrated the Site's technical capability and which enhanced our technical infrastructure. Most notable in the area of Nuclear Material Stabilization were startup of HB-Line and development of an innovative FB-Line metal casting process. Completion of the Replacement Tritium Facility (RTF) Loading Line 6 modification and startup preparations for ACORN reservoir loading and completion of a well planned and executed outage to replace the RTF distributed control system ahead of schedule were noteworthy in Tritium Operations. In Waste Management, WSRC effectively managed retrieval and stabilization of transuranic waste drums and fully resolved significant and complex technical issues associated with drum venting and purging operations. Additionally, the Defense Waste Processing Facility (DWPF) continued to operate in a highly effective manner. Relative to Environmental Restoration, installation of the old radioactive burial ground soil cover and sanitary landfill demonstrated excellent progress in environmental remediation. Finally, in Science and Technology, the Savannah River Technology Center provided effective technological and research support to several missions; particularly with respect to high level waste feed preparations and deployment of a passive geosiphon system for environmental remediation in D-Area.

COMMUNITY AND REGULATOR RELATIONSHIPS

In the area of community and regulator relationships, WSRC placed great importance on its relationships with local stakeholders by changing the process for notifying public safety officials about operational conditions. This has been positively recognized by regulators and stakeholders. Additionally, cooperation with regulators enabled approval of the high level waste removal plan and schedule. Other forms of community support were also outstanding as evidenced by support for education and asset reuse.

COST EFFECTIVENESS

WSRC continued to show improvement in establishing a more cost effective mode of operation for the Site. Reconfiguring the operations of the Consolidated Incinerator Facility, Saltstone, and the Effluent Treatment Facility affords good opportunity for cost reduction in waste management. Examples of effective operation and outage management included DWPF and the Replacement Tritium Facility. Other significant examples of cost effectiveness included updating the 1998 environmental restoration baseline, establishing the Site Energy Savings Performance Subcontract, and achieving cost efficiencies through effective implementation of the Productivity and Cost Effectiveness (PACE) initiative.

CORPORATE PERSPECTIVE

The most commendable example of corporate perspective was your full and aggressive support of the DOE-wide effort to integrate its waste management, cleanup, and nonproliferation programs and activities. This offers significant opportunity for Department-wide cost savings, complex-wide performance to accelerated cleanup schedules, and improved safety across the complex. In addition to supporting this important effort, you also supported the Hanford tank waste remediation effort and established an excellent working relationship with Los Alamos National Laboratory to collaborate on the Accelerator Production of Tritium Project.

It is primarily on the basis of the above noted performance that I have determined your fee for Period 3. As always, however, continued strong performance demands vigilance and continuous improvement, and in this light, the following areas afford the most opportunity for improvement as described below:

While conduct of operations at the Savannah River Site are, generally, "best in class," there were some challenges to this performance this period at some facilities; most notably, the In-Tank Precipitation and tank farm facilities and F-Canyon. Examples include conductivity probe mispositioning, hydrogen monitoring inconsistencies, personnel and facility contamination, and errors in tank-to-tank transfer of radioactive material. Continued attention in assuring clarity of safety controls and procedures, adequate staffing and training, effective job planning, supervisory and management involvement and coaching, and continued and appropriate reinforcement is necessary to assure successful resolution.

A generic issue in the area of conduct of operations involves continued deficiencies in waste certification by waste generators. This has been a chronic issue for several years and does not appear to be receiving the management attention it deserves. The result has been a loss of site credibility with our regulators, and the program will require additional funds to properly train and qualify personnel.

The Site has historically experienced difficulty in bringing complex major nuclear projects, such as In-Tank Precipitation and, more recently, the Americium/Curium stabilization project, to operation on time and within budget. Key challenges include (1) assuring early and sufficient technical definition, safety analysis, and research and development (including developmental testing) to support design prior to design finalization, (2) assuring appropriate design finalization and verification to enable initiation of construction, and (3) assuring use of "best in class" project management teams. Although all the data is not yet in on the plutonium storage projects, similar concerns appear to exist.

While I recognize that some of the factors that set up a fast track approach for a project are beyond your control, I also believe that many factors are within your control. These include taking a systems approach, assuring sufficient analysis, research and testing to inform design, assuring sufficient design to inform construction, and developing "best in class" project management teams. We have to deliver a product on time and within budget that can objectively withstand technical challenges; objectively undergo scrutiny of an operational readiness review without the need for redesign and reconstruction; receive positive review by our oversight groups; and perform as expected once placed in operation. We have the opportunity to become "best in class" in this area if we approach it properly and I will work closely with you to help assure success.

With respect to In-Tank Precipitation, resolution of technical issues to achieve operational startup and processing were specifically incentivized under a $2,000,000 performance based incentive opportunity. This incentive opportunity included special provisions that would not only result in loss of this available incentive fee for failure to start the operation this year, but would also require WSRC to forfeit $1,000,000 if startup did not occur this year. It is clear from the current plans and schedules that the In-Tank Precipitation operations will not be authorized to start this year. Notwithstanding the difficulties experienced with In-Tank Precipitation, I am encouraged by your recent actions to systematically identify salt treatment alternatives and resolve technical issues to enable future salt treatment capability.

Relative to safety documentation, the Tank Farm operations staff has had to rely for several years on prior operational safety requirements and corresponding procedures, which have not been upgraded to current standards for specification of safety controls. While this has not created an immediate safety concern, it has resulted in the increased need for interpretation, inconsistent implementation and, in some cases, facility impactive operational events. My staff and I continue to be concerned about WSRC's ability to expeditiously refine, issue, and implement updated and improved Technical Safety Requirements that meet current standards in the Tank Farms and therein reduce potential safety vulnerabilities. I urge you to promptly resolve this issue.

My staff will continue to focus on WSRC efforts to improve in the key areas noted above during the next period. Additionally, they will concentrate on:

- assuring continued implementation of Integrated Safety Management;
- assuring continued development of community, state, and regulatory relations, particularly with respect to Emergency Preparedness;
- assuring continued progress in improving cost effectiveness of site operations;
- assuring implementation of computer system and software changes to resolve Year 2000 issues;

- assuring disposal of excess assets and facility mortgage reduction; and,
- assuring an effective revision to the Cost Reduction Proposal Program.

As a result of this evaluation, I have determined a fee for each of the award fee program areas as identified in the enclosed Award Fee Adjective Scoring. Based on the aggregate of these areas, WSRC overall performance is rated as "Exceeded Expectations" and your earned fee is $16,855,900 of the $20,075,000 award fee pool. With regard to the aforementioned forfeiture associated with the In-Tank Precipitation Performance Based Incentive, I am reducing your fee $1,000,000 to $15,855,900. Also, in consideration of the aforementioned continued deficiencies in waste certification, I am reducing your fee an additional $100,000 to $15,755,900.

As a final note, your performance against specified performance based incentives has also been evaluated as indicated in the enclosed Performance Based Incentive Summary. During this period you earned, and were paid, a total of $300,000 in incentive fee for success in vitrification of High Level Waste.

I have not reached a decision on carryover of unearned fee into the final period of this award fee year for special emphasis areas. I will advise you on the results of my deliberations by separate correspondence.

DOE Lead Evaluators will be discussing their evaluations with their respective WSRC counterparts in the near future. I am available to discuss the overall award fee evaluation with you. Thank you for your efforts and commitment to safety and continuous improvement in the operation of the Savannah River Site.

Sincerely,

Greg Rudy
Manager

NB-98-077

Enclosures:
(1) Award Fee Adjective Scoring
(2) Performance Based Incentive Summary

cc w/encl:
J. J. Buggy, WSRC

WSRC Award Fee Adjective Scoring
(October 1, 1997 – March 31, 1998)

Functions	Adjective Rating*	Award Fee Available	Award Fee Earned
High Level Waste	Exceeded Expectations	$3,775,000	
Materials Stabilization	Exceeded Expectations	5,650,000	
Solid Waste	Exceeded Expectations	1,500,000	
Environmental Restoration	Exceeded Expectations	1,600,000	
Tritium	Exceeded Expectations	1,550,000	
General Site Management	Exceeded Expectations	6,000,000	
Award Fee Period 3	Exceeded Expectations	$20,075,000	$16,855,900
A deduction of $1,000,000 for In-Tank Precipitation Performance Based Incentive forteiture			-1,000,000
A deduction of $100,000 for waste certification inadequacies			-100,000
TOTAL AWARD FEE EARNED IN PERIOD 3			$15,755,900

Enclosure 1

Performance Based Incentive Summary
For the Period Ending March 31, 1998

No	*FY98 Performance Based Incentive*	*Value*	*Paid to date*
1	Produce canisters in DWPF – Payments start at 100 and go to 250	$6,000,000	$300,000
2	Startup In-Tank Precipitation processing and transfer – Complete one batch and start a second batch by 9/30/98	2,000,000	(1,000,000)*
3	Incinerate 2.7 million pounds of waste at CIF - $.4 per pound for 1 million pounds after 1.7 million pound AOP level is met	500,000	
4	Spent Nuclear Fuel alternate technology - develop performance requirements by 7/31/98	750,000	
5	Sale of heavy water - earn from 3 to 5% of the sales price for finding a buyer	3,000,000	
6	Cask processing program - unload casks and reduce the time the casks stay on site	1,500,000	
7	Accomplish ER regulatory work scope beyond the AOP target level	1,900,000	
8	Increase Low Level Waste processing efficiency	500,000	
9	Pollution Prevention through contamination area rollbacks	800,000	
10	Accelerated Completion and Qualification of Loading Line 6 for War Reserve (WR) Loading of ACORN reservoirs – Loading before 6/11/98	500,000	
11	Deactivating Building 232-H on an accelerated schedule	400,000	
12	Development and implementation of a Local Area Network Material Accounting System	1,000,000	
	Totals	$18,850,000	$300,000

* Deducted from Award Fee Period 3 Earned Fee

Completion of PBIs must occur by the end of Period 4, or as otherwise stated above, to receive incentive fee.

Enclosure 2